

103
THE AFRICAN DEVELOPMENT BANK

Y 4. B 22/1:103-142

The African Development Bank, Serial...

RECORD RING
BEFORE THE
SUBCOMMITTEE ON
INTERNATIONAL DEVELOPMENT, FINANCE, TRADE
AND MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
SECOND SESSION

MAY 19, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

Serial No. 103-142



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C O N T E N T S

	Page
Hearing held on: May 19, 1994	1
Appendix:	21

WITNESSES

THURSDAY, MAY 19, 1994

Levine, Susan, Deputy Assistant Secretary for International Development, Debt, and Environment Policy, U.S. Department of the Treasury	3
Bullard, Edward, Founder and President, TechnoServe, Inc.	9
Haynes, Clarence, on behalf of the Corporate Council on Africa	7
Ong'wen, Oduor, Coordinator, Bank Monitoring Unit, The Africa Water Network	6

APPENDIX

Prepared statements:	
Levine, Susan (with attachment)	22
Bullard, Edward	35
Haynes, Clarence	33
Ong'wen, Oduor	27

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

"The African Development Bank at 30: A New Era of African Development," remarks of Jeffrey R. Shafer, Assistant Secretary for International Affairs, U.S. Department of the Treasury, May 12, 1994	44
Notes for an address by Christina Stewart, Secretary of State (Latin America and Africa), Government of Canada, 30th Annual Meeting of the African Development Bank, May 12, 1994	52

THE AFRICAN DEVELOPMENT BANK

THURSDAY, MAY 19, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
FINANCE, TRADE AND MONETARY POLICY,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the subcommittee] presiding.

Present: Chairman Frank, Representatives Bacchus, Rush, Watt, Bereuter, and Huffington.

Chairman FRANK. The hearing of the subcommittee will come to order. I should note with some apology to our witnesses that we have conflicting business. One of our dilemmas is that another subcommittee of the Banking Committee is also meeting at this time. I know, for instance, that Ms. Waters who has a particular interest in the subject of Africa, is going to have to divide her time between the two. And there will be other Members who want to be here and are being pulled elsewhere. So I want to assure the witnesses that there is a great deal of interest in this situation and that the testimony will be reviewed.

I have a brief opening statement I want to make. I am obviously aware of the difficulties that have arisen in the replenishment negotiations now going on, and I know I speak for a large number of the members of the subcommittee when I say that we regard the subject of increased funding for development in Africa as one of the most important foreign policy issues facing this country from the economic and moral and world political standpoints. And we stand ready to cooperate.

We agree that improvements in the administration of the Bank are needed, and we hope that we will be able to persuade people that the United States is ready to be fully cooperative. I know that our government has taken a somewhat positive position in this regard. My own view is that if we can get the kind of improvements we are talking about, an even larger replenishment than is being discussed would be called for.

I know we have budgetary problems. But long years of neglect of Africa, the serious debt problems, and other problems that Africa has, I think, argue strongly for a priority. And we have seen recently some tragic outbreaks in various parts of Africa. We want very much to try to forestall this.

And now that the new Republic of South Africa, the best news the world has had in a very long time, has taken its place in the

forefront of nations committed to democracy and justice. There is a new place at the table. And it is very important for us to be able to find the resources fully to respond to the magnificent work that has been done by President Mandela and others in South Africa without in any way diminishing, in fact, many of us believe we should be increasing, what we do elsewhere in Africa.

So I know I speak for a very significant number of the members of this subcommittee when I say we give this a high priority, and in the negotiations, we are in support both of administrative improvements and in a better and continuing improved focus on genuinely improving the quality of life there and also of additional funds.

Finally, I should note that last year the subcommittee spent a good deal of time trying to make clear the value of a more transparent policy of information at the World Bank and the IDA, and also a review board, and we believe that all of the arguments that applied in the case of the World Bank apply in the case of the various regional banks.

I know they have been making some progress in the Inter-American Development Bank. We think that this is important too. And because many of us want to be able fully to respond to the legitimate economic needs in Africa, we hope that the African Development Bank will be emulating the World Bank. And nothing says you have to stop at emulation, even exceeding the World Bank is allowed in terms of openness and the review process. And that will contribute substantially to our ability as a subcommittee to maximize the money that is made available.

Any other opening statements? Mr. Bacchus.

Mr. BACCHUS. Yes, Mr. Chairman, I have a brief opening statement.

First of all, let me say that I share your sentiments wholeheartedly and commend you for your emphasis on this vital issue. I want to join you in welcoming our panel to what is indeed a very important hearing.

This year does mark the 30th anniversary of the African Development Bank. All along, the United States has been a key partner in the Bank, which has contributed greatly to the much-needed development of the continent. I join President Clinton, Treasury Secretary Bentsen, and our distinguished chairman, Mr. Frank, in expressing my strong support for our country's role in the Bank.

My chief of staff, Linda Hennessee, just returned from Nairobi where she served as a congressional observer at the Bank's annual meeting there. She has shared with me the excellent testimony of Assistant Secretary of the Treasury Jeff Shafer, as well as the testimony of Canada's delegate to the meeting, which I asked the chairman to have entered into the record of this hearing.

[The material referred to can be found in the appendix.]

Further, I want to commend Susan Levine, one of our panelists today, and Matt Hennessey of the Treasury Department for their fine work on behalf of our country in Nairobi and for their commitment to the success of the African Development Bank. We are looking forward to your testimony, Ms. Levine.

It is no secret that there have been many criticisms of the Bank's operations, as the chairman just mentioned. I commend the Treas-

ury Department for the formulation and pursuit of helpful reform proposals that will ensure more effective management and accountability. To date, many of the reforms have been adopted by the Bank, including tough policies on arrearage, for example. I am hopeful that further negotiations will be successful in the areas not yet concluded.

In my view, multilateral development banks are a productive mechanism to enable and encourage economic growth in countries whose access to traditional capital markets is limited. The United States must continue to play a leadership role in ensuring the success of all of these banks.

While we support economic growth in emerging markets for its own sake, we must certainly remember as well our vested interest in the creation of trading partners for U.S. goods and services. I believe that not only does trade lead to prosperity, but it also leads through prosperity to peace. Again, I welcome our panelists and look forward to their testimony.

I thank you, Mr. Chairman.

Chairman FRANK. Thank you, Mr. Bacchus. We will now proceed with the witnesses, and we will begin with the Deputy Assistant Secretary of the Treasury, a familiar witness for us, Susan Levine, and we appreciate again her willingness to participate in what we have found to be the most useful format.

Ms. Levine, please go forward. Any written statements anyone has will, without objection, be made a part of the record and members of the panel can proceed orally.

STATEMENT OF SUSAN LEVINE, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL DEVELOPMENT, DEBT, AND ENVIRONMENT POLICY, U.S. DEPARTMENT OF THE TREASURY

Ms. LEVINE. Mr. Chairman, the issue today is the administration's request for authorization for U.S. participation in the seventh replenishment of resources for the African Development Fund.

Our request will be for \$315 million for the total U.S. contribution to this replenishment, which will be paid over a 3-year period. This request is in anticipation of the conclusion of the negotiations, which we expect will occur later this summer. As you know, we had hoped to conclude the negotiations at the annual meeting in Nairobi. However, the complexity of the issues and the weight of the reform agenda being pursued by the OECD countries did result in our African partners requesting additional time to consider their response.

As you yourselves have said, the U.S. Government is deeply committed to Africa's development. This is a continent rich in diversity and history, which is now at a critical stage in its economic development. The situation in sub-Saharan Africa is particularly precarious today. This is the only region of the world where poverty is projected to continue increasing.

The United States has a strong stake in helping to ensure that these countries successfully meet the challenges they face. Providing support for Africa's development was of paramount importance to us as we prepared our fiscal year 1995 budget request. The fact is, the African Development Fund and the World Bank's Inter-

national Development Association—which allocates half of its resources to Africa—account for almost 70 percent of our total budget request for the multilateral development banks.

The multilateral resources in total allocated to Africa are substantial. For example, IDA commitments to sub-Saharan Africa over the next 3 years are expected to total \$10.7 billion, an increase of \$2.2 billion over the previous 3 years. The World Bank is also planning substantial support for South Africa.

The International Finance Corporation has over \$850 million in loan and equity investments in the region. Africa will also benefit from our request for debt reduction and from the enhanced structural adjustment facility of the IMF.

The African Development Bank group has a unique role to play in the region. This is an indigenous institution, the only multilateral development bank that is majority owned by Africans. It is clearly important to African policymakers.

The main challenge of the Fund is to reduce poverty. All of its resources are provided on a concessional basis. For the poorest, already highly indebted countries of the region, it is the Fund and not the hard loan window of the Bank, that is an important source of development financing. The Fund, which provides resources from the United States and other donors from outside the region, fills a critical role for these hard-pressed countries.

In our view, however, if this institution is to play a pivotal role in the future of Africa, its development impact must be strengthened. The institution has had more than its share of problem loans. This is partly explained by the climate in which it operates, arguably the most difficult development environment in the world. Its borrowing countries are among the poorest, and their economic and political systems are undergoing difficult transitions. The Bank Group has had its own set of problems, including arrears on loans, some difficult Board members, and senior management turnover.

The Administration has been working hard with management and member countries to strengthen the institution. Both the Bank and the Fund have already made some headway on their financial policies, including: Strengthening the nonaccrual policy; building reserves; and intensifying efforts to recover outstanding arrears. With regard to arrears, we have been told by management that a number of countries are making progress on this front. But some arrears are due to political, structural, or economic problems and will require a longer workout period.

We do believe that further strengthening of financial policies is possible. In particular, we want well-defined country eligibility and exposure guidelines. As I noted earlier, some countries simply cannot afford to borrow funds at market rates from the hard window. These countries should be limited to concessional resources in order not to exacerbate their debt burdens. The standard practice in the multilateral system is for these countries to borrow from the concessional loan windows only, and we think this makes sense.

In addition to strengthening the financial base of the Bank Group, we are working with the institution to strengthen its development impact. The Bank recently concluded its own version of the Wapenhans Report, known as the Knox Report. As anticipated, the report points out significant shortcomings in the operations of the

Bank Group. In particular, it highlights problems in project implementation and evaluation.

The Bank Group does not currently have the field capacity to supervise project implementation properly. But management is now in the process of preparing an action plan to address this and other key findings of the report.

The Knox Report also touches on issues of governance: relationships within management; between management and the Board of Directors; and the oversight role of the Board of Governors. These issues will require careful consideration and consultation among regional and nonregional capitals.

Let me now turn to issues specific to the replenishment. We are successfully negotiating a number of policy changes that are of fundamental importance to the United States. The first is a stronger emphasis on sustainable development. This includes lending to the social sectors, especially health and education. The draft agreement makes special reference to the education of girls.

Other important initiatives include: a new microenterprise program which will channel money to small-scale entrepreneurs through nongovernmental organizations; stronger emphasis on the environment, including stronger forest and energy efficiency policies; and good governance.

Donors agreed that an information policy and an inspection function, analogous to those negotiated at the World Bank, should be established to strengthen the transparency and accountability of the Fund. They also agreed that a strong and independent internal audit function should be maintained that would examine operational and financial procedures and practices. The function should report directly to the President and to the Board of Directors.

An important part of the replenishment is the basis on which Fund resources will be allocated among African countries. Funds will be allocated on a flexible basis, with more going to those countries which demonstrate strong economic and social performance. Countries with weak development policies will be restricted to core programs aimed at helping the poorest members of society.

Mr. Chairman, although the negotiations did not conclude in Nairobi, we do need the support of this subcommittee to bring those negotiations to a successful conclusion. It is particularly important that we send a signal of solid support to the regional members of the Bank in order to encourage them to endorse the proposed reform agenda. We also need the resources of the Fund, in combination with the resources of IDA, and our own bilateral programs to provide crucial assistance to the poorest in Africa.

As I have already said, we will be seeking authorization for \$315 million to be paid over 3 years. You have noted that this is a lower amount than the U.S. pledge for the previous replenishment. However, we have failed to fully meet our commitment to that replenishment.

Now we must make up those arrears as we enter into the seventh replenishment. That means paying our arrears, plus our contributions to the seventh replenishment in fiscal year 1995 and 1996, which will result in annual contributions that are roughly the same as the past 3 years.

As we are all acutely aware, development assistance is facing serious budget constraints. Competition for funds among our development programs to assist Africa is intense. In this environment, the amount we are proposing for the African Development Fund represents a carefully considered judgment of how we might achieve the strongest development impact across programs supporting Africa.

The African Development Fund remains an important priority for the United States and we hope the subcommittee will approve our request. Thank you.

[The prepared statement of Ms. Levine can be found in the appendix.]

Chairman FRANK. Thank you. Next we will hear from Mr. Oduor Ong'wen, who is the coordinator of the Bank Monitoring Unit of the Africa Water Network. Mr. Ong'wen.

STATEMENT OF ODUOR ONG'WEN, COORDINATOR, BANK MONITORING UNIT, AFRICA WATER NETWORK

Mr. ONG'WEN. Thank you, Mr. Chairman. I work for Bank Monitoring Unit, which is an initiative of African NGOs that monitors the sociocultural and environmental impacts of the multilateral development banks.

Mr. Chairman, the recommendations I am going to bring out in this testimony are a result of an AfDB-NGO meeting which took place during African Development Bank annual meetings in Nairobi. The NGOs need the African Development Bank, they need a strong bank, and they feel it is quite necessary. However, there are certain shortcomings in the Bank that the NGOs would like improved upon. One such shortcoming, Mr. Chairman, is on information dissemination.

Mr. Chairman, as African NGOs, we strongly recommend that African Development Bank should develop clear guidelines and policies on information disclosure and dissemination. It should clearly specify which kinds of information it considers classified or restricted and give sufficient reason for such disclosure or restriction.

We recommend to the chairman that all other documents should be made available to NGOs and the public. We particularly want the Bank to ensure that the documents that are available to NGOs, include but are not limited to impact assessments, environmental impact assessments and plans, appraisal reports, performance reviews, and other documents related to planning and design of projects.

Mr. Chairman, we also feel there should be a timeframe on the period within which these documents should be made available to the public and to the NGOs, but we highly recommend that a minimum information needs to be publicly available before the Board of Directors votes on whether or not to approve a project. This would enable the concerned parties to make presentations to the board before the project is approved.

On participation and appeal by affected parties, Mr. Chairman, the ADF VI already requires full participation by affected communities and NGOs throughout the project. However, before the approval of the seventh replenishment, Mr. Chairman, we would like

the Bank to commit itself to community and NGO participation in projects at all stages and to establish an independent appeals panel similar to the one established by the World Bank last September for affected communities to seek redress on projects which affect them.

On projects supervision, Mr. Chairman, we recommend that before the seventh replenishment is approved, the Bank should review its current processes on projects supervision. Country supervision missions should be more frequent and professionally competent and they should talk directly to the affected people and NGOs, besides the implementing agencies, so as to get a more comprehensive view and assessment of the projects.

The Bank should also devise a mechanism for filing regular reports to member countries and other interested parties, including NGOs.

Monitoring and the evaluation process. Mr. Chairman, we also recommend that the Bank ensures that environmental screening and environmental impact assessments are properly carried out. It should strive to set aside funds for conducting the impact assessments instead of depending on bilateral funding which often delays the process and sometimes comes with conditions on which consultants should be hired. The Bank ought to be in the forefront of capacity building efforts at the national level among the NGOs in the regional member countries for the conduct of environmental impact assessments.

On the Bank's bureaucracy, Mr. Chairman, we feel that the Bank spends too much money running the secretariat, leaving very little resources for professionals that can monitor the projects in the field. Therefore, we feel there is a critical need for a review of the Bank structure with a view to streamlining the secretariat, strengthening the operational wing, and reducing and making more efficient the administrative team.

The Environment and Social Policy Division we feel should be restructured and made to fall under a vice president, as is now the case with the Private Sector Development Division.

Those are a few recommendations that the NGOs felt would improve the Bank's performance and they have already submitted some of them to the Bank staff.

Mr. Chairman, I would welcome any questions from anybody that might seek clarification on some of these recommendations. Thank you.

[The prepared statement of Mr. Ong'wen can be found in the appendix.]

Chairman FRANK. Thank you. We will now hear from Mr. Clarence Haynes. He is testifying on behalf of the Corporate Council on Africa.

STATEMENT OF CLARENCE HAYNES, ON BEHALF OF THE CORPORATE COUNCIL ON AFRICA

Mr. HAYNES. I am delighted to be here on behalf of the Corporate Council on Africa and Malcolm Pryor who has a severe case of laryngitis and is unable to be here today.

The Corporate Council was established in 1993, comprising American corporations and entities committed to economic and pri-

vate sector development in Africa. There are four points that I would like to make regarding the African Development Bank and private sector development.

First, the ADB is the one institution in Africa that truly facilitates capital formation at this time. The ADB has been very successful in accessing international capital markets to fund its projects, decreasing the burden of international donor organizations, and to make grants and loans to finance the critical infrastructure projects that will literally form the physical foundations for Africa's economic development.

As a result of its success in raising capital from the international markets, the ADB issues have facilitated the opening up of markets for other issuers of securities. This has been evidenced recently by a commodity linked transaction involving the Eastern and Southern Africa Trade and Development Bank, known as the PTA Bank. This was a transaction engineered and placed by U.S. financial institutions.

Second, I would like to make an observation that many international fund managers are beginning to look at Africa as a viable place to invest capital. Africa is beginning to mature in the eyes of many institutional investors that have never before considered it as a place to invest capital. This represents a huge turning point at which not only South Africa, but African countries such as Ghana, Uganda, Botswana, Zimbabwe, and Tanzania are now in a position to see foreign inflows of capital that not even the most optimistic people would have imagined a decade ago.

The recent public offering of the Ashanti Goldfields which raised over \$300 million for partial privatization in Ghana is an example of this interest among institutional investors. Fund managers need to rely upon the ADB and other multilateral development organizations to provide support and to share the risk associated with investment in Africa. We are encouraged by the consideration now being given to the establishment of the equivalent of an IFC [International Finance Corporation] to further promote private sector development on the continent.

Third, the ADB should strive to become more active in private sector projects through investment in its own right and facilitating internal capital market development within Africa. Specifically, the ADB should look at mechanisms that will strengthen local financial institutions and local currencies, stimulate greater savings, and build local financing mechanisms within the African countries.

The ADB should collaborate more with entities such as the International Finance Corp., OPIC, and U.S. private sector entities such as those involved with the African Growth Fund, that have developed successful financing mechanisms in Africa and other emerging markets.

Fourth, the Council feels that the ADB in the past has had to operate under very difficult circumstances. Many of its borrowers had not made appropriate financial/economic adjustments in their policies and were not able to manage their fiscal affairs in such a way as to meet their payments to the Bank according to schedule.

Therefore, the Bank is presently faced with a significant number of arrears, but where appropriate, we truly believe that there will

be a commitment to bring these arrears current and to introduce more rigorous guidelines to protect against reoccurrence.

The ADB is and will continue to be a central player in the development process, and we should support the Bank. The ADB's pre-eminent role as a financial player in the American marketplace underscores the need to maintain innovative leadership that will create a flexible and responsive organization with skilled personnel processing the increasing demands which are placed on its staff.

Notwithstanding the recent publicity regarding the Bank's operations, the issues raised in many quarters regarding the Bank need to be addressed, and solutions need to be found that will allow the Bank to be more responsive to the private sector and operate more efficiently as a whole.

The ADB is a key player in supporting private sector development in a number of African countries that have successfully waged an unglamorous and seldom-recognized struggle to reform their economies through structural adjustment programs.

As South Africa begins to demand a greater share of the world's attention and resources, other needs and facilitating resources in Africa must be addressed. The ADB has played a significant role in Africa in the past, and with continued support, it will be able to make an even greater contribution in the future. We are encouraged by the attention that the Bank is receiving here today.

[The prepared statement of Mr. Haynes can be found in the appendix.]

Chairman FRANK. Thank you, Mr. Haynes. Finally, we will hear from Mr. Edward Bullard, who is the president of TechnoServe, Inc.

STATEMENT OF EDWARD BULLARD, FOUNDER AND PRESIDENT, TECHNOSERVE, INC.

Mr. BULLARD. Thank you, sir. My central point, Mr. Chairman, is that development institutions such as the African Development Bank must focus more attention on the 350 million poor people that live in rural areas in a quarter of a million villages, two-thirds of whom are living in a condition of absolute poverty.

We know that the interventions by multilateral institutions take place at two levels: At the policy level; and we know also that they are supposed to take place at the grassroots level. I would say from my own observations that at the grassroots level with the poor clientele that we are talking about now, the intervention has not been terribly successful.

I make an observation, Mr. Chairman, as we go forward here. It seems to me, I am hearing a concern on the part of many policy-makers about basic human needs, and I think that is a step backward. I think what we should be talking about is wealth creation in rural areas in Africa. And I would like to see how the African Development Bank and the World Bank can contribute to that wealth creation amongst groups of poor people who really have no access to our current economic system, to the kinds of \$10 million loans that the African Development Bank so often makes available.

I have, Mr. Chairman, two specific recommendations. The first is to put more emphasis on technical assistance, subsidized technical assistance. We are dealing here, in my mind, with trying to em-

power a third of a billion people who have no concept about what we are saying. They don't know a business from a baby carriage.

The only way to enable those people to participate in the kind of world in which we would like to see them participate is to train them, is to give them the know-how to get the job done. If a \$10 million loan is going to be made to enhance the development of a commodity sector, I believe, sir, that it needs to be complemented by a \$6 to \$8 million technical assistance grant which would be used so that the folks who are getting those capital resources could use them productively and pay off those loans. So the first concept I would put forward, Mr. Chairman, is the importance of complementary technical assistance grants.

The second concept is that the African Development Bank, the World Bank, many of these multilateral institutions have a great deal of difficulty connecting with the grassroots. Some sort of connecting mechanism needs to be developed if this group that we are talking about is to be really helped and enabled to help themselves. Some sort of intermediary institutions have got to be put in place so that the poor can deal with the Bank, enabling them to access the capital that we are talking about that would be coming from the African Development Bank.

One of the models that the Bank should be supporting is the idea of farmer-owned businesses, community-based enterprises, groups of farmers coming together, producing, processing, and marketing commodities that are competitive, that require business know-how and capital input. This model enables poor people to double their incomes if they can manage these kinds of agricultural enterprises which I think can prosper on the continent of Africa.

In closing, Mr. Chairman, it seems to me very possible to make this sort of thing happen, to develop entire commodity sectors to make a real impact on the lives of the millions of poor people about whom we are speaking. And if the African Development Bank and the World Bank are going to have a more meaningful, positive impact on the lives of the rural poor in Africa, I think that they need to develop more effective mechanisms for connecting with those rural people and that there needs to be more consideration given to technical assistance grants and subsidies.

Thank you, sir.

[The prepared statement of Mr. Bullard can be found in the appendix.]

Chairman FRANK. Thank you, Mr. Bullard. Let me note that we have been joined by the ranking Member on the Republican side, Mr. Bereuter, by Mr. Watt, and by Mr. Huffington.

I will begin with a couple of questions. Ms. Levine, let me say I appreciate the Administration's taking the lead in trying to keep this alive. You have the difficult problem of pushing for improvements, while trying to keep up the funding. I am sensitive to what you say about the arrearages.

In other words, your understanding is that we will fully fund those arrearages while continuing with the new pledge?

Ms. LEVINE. Mr. Chairman, in answer to your question and based on the markup that we learned of yesterday, we will, assuming everything goes forward be able, assuming negotiations conclude successfully, to pay the \$105 million per year, plus to begin

a significant workout of \$60 million of arrears. We wouldn't clear them all in the first year, but we would begin to work them out.

Chairman FRANK. I understand that we all have these budget constraints, but I would put a high priority on rapidly reducing those arrearages, tied to some extent to the improvements that we see.

And I can tell you Mr. Obey made a big pitch for the banks at the Democratic Whip meeting this morning, and I said I would join him. That will be on the floor, I think, fairly soon, and obviously, if we are not able to sustain that, we will have nothing.

I intend to make clear to the Members that to the extent that we have been able to make some improvements in a variety of ways in the banks, if the United States cuts the funding substantially, our leverage to make improvements diminishes. This is not a case where we are saying OK, we will give them the money and then we will wait; this is a simultaneous process, and if we slow down on one part, we can expect a slowdown in the other.

Mr. Bullard, let me say I am interested, because your testimony goes counter to some of the prevailing views, and that is, I think, very useful. That is one of the important forums that we should be providing here.

I get the impression that you are saying that well-intentioned although it is, the focus on more immediate human needs may be detracting from broader structural kind of emphases that will make us better off. You talk about wealth creation. Partly that is technical assistance. But is there another sense of it? Are you saying that too narrow a focus on immediate alleviation substitutes for the investment that you need for wealth creation?

Mr. BULLARD. I think there is a safety net that we would all like to see everybody in the world have. The problem is how to sustain that safety net, how to provide for people's basic human needs. One way to provide for people who are very poor and cannot provide that for themselves is a subsidy that would go to provide for those basic human needs. But the problem is the sustainability of doing that for so many people, with the diminishing budget that you have just talked about.

The other way to do it is to effectively and productively invest capital and know-how, the two, so that people can produce wealth for themselves. The rural poor can then produce wealth for themselves, and with that wealth in their communities, they can then pay for their own clinics, pay for their own teachers, enable the women to get the kind of education that they need, and that is a self-sustaining process.

Chairman FRANK. Let me ask Mr. Ong'wen and Mr. Haynes in particular if you have any comments on Mr. Bullard's testimony which came after yours. Because there is some difference in viewpoints. Mr. Ong'wen, do you have any comment on Mr. Bullard's suggestion that maybe we have focused a little bit too much in recent discussions on immediate human needs and not enough on a broader investment strategy?

Mr. ONG'WEN. Mr. Chairman, I don't think that there is a contradiction in what he is saying. When we talk about investment in basic needs and investment in—what did you say again?

Mr. BULLARD. Productive activities.

Mr. ONG'WEN. In productive activities, these should be able to go hand in hand, because we are in a continent where there are very, very, very serious problems. People do not have access—a big proportion of the population do not have access—even to one square meal a day, and therefore, if we say we are simply moving from basic needs to productive investment, we might not be doing these people justice.

But what I take his position to be is that we should be able—as much as we focus on basic needs, we should be able to enhance the productive capacity, say that these people do not have to always look for somebody to invest in what their minimum needs are, but maybe enhance their capacity to be able to fend for themselves, to be able to utilize the resources that are there and to be able to improve their lives, so that they move from thinking just about basic needs every day to now making their lives better.

So I think what Mr. Bullard is saying is that there has been too much attention to basic needs rather than enhancing the productive capacity, and that the Bank should now be able to make the people of Africa be able to utilize the resources that are there, to enhance the quality of their lives. But it is not a complete shift that we shift from one side and concentrate entirely on the other, but to find a way in which these two can be balanced.

Chairman FRANK. That is very useful. Thank you. Mr. Haynes.

Mr. HAYNES. I was just going to say that I think this is one of the complexities associated with the continent; I mean, there are numerous needs. You have basic needs, but also you do have situations where it is very important that some of the things that Mr. Bullard was saying are very, very important to support. But also we feel that it is equally as important to be supportive of the development of a private sector which can help achieve some of these objectives.

Chairman FRANK. Ms. Levine.

Ms. LEVINE. Thank you. I think the comments of the three witnesses, we wholeheartedly support, and there is not really a contradiction if you consider the types of programs that we are encouraging the Bank to finance. For example, education. Only 14 percent of African girls are enrolled in primary school, and that is why we have strongly emphasized education, clearly the long-term benefits have been well studied from a productivity perspective.

Also, we have created through the Fund, or will create once we have concluded the negotiations, a fund that will be devoted specifically to microenterprise, which I think also accommodates some of the concerns that Mr. Bullard raises. And this fund will be channeled through NGOs who have the capacity to work in the area of microenterprise.

As for technical assistance, Mr. Bullard's comments are well taken. To be frank, in the past, we have not always felt that the technical assistance funds were well used. But recognizing their importance, this replenishment will also provide that 7.5 percent of the Fund is available for technical assistance.

Chairman FRANK. Thank you.

Mr. Bereuter.

Mr. BEREUTER. Thank you very much, Mr. Chairman. I do have a few opening remarks I would like to make at this point as a part of my comments.

I think we have to recognize that Africa is the only continent where the lives of people on average are worse off every year than they were the year before. And there is a temptation, I think, for the United States, now that the cold war is over, to just forget about Africa. This, of course, would be exactly the wrong thing.

I perhaps am the most outspoken member of the Foreign Affairs Committee in support of keeping the Development Fund for Africa, which was an initiative largely of Congressman Wolpe some years ago, and for adequate funding of it, and the news from the appropriators yesterday is good in that respect.

But I must tell you that I am losing confidence in the African Development Bank, particularly when I look at the Knox Report. And I am close to suggesting to my colleagues that either we get reform or we have a vote of no confidence.

This is the African-run bank; it is the premiere institution that is African-owned and African-run. It should be leading the way to policy analysis and effective project support for the continent.

This is an institution that badly needs more serious attention from the African governments in shaping the reforms that could help it lead development policy in Africa. I think it is also the fund most seriously in need of American involvement and pressure in pushing Africans to set out their development policy, not American development policies, and to use the money wisely that the donor countries are providing.

Last month's Knox Report, for example, commenting about the project preparation, supervision, evaluation, as well as the organization and culture of the institution, was very critical. For instance, of the Bank's 630 completed projects, only 32 percent, or 200, have been the subject of required completion reports by the Bank and the borrower.

While the report stresses that these problems are not particularly complex and can be solved with concerted action by all staff, management and boards of directors and governors, it documents the need for so many basic reforms that it is hard to believe that the Bank's culture could shift enough for that to happen.

Secretary Levine, what makes you so optimistic about the Bank in light of this very discouraging assessment by the task force on project quality, the so-called Knox Report?

Ms. LEVINE. Mr. Bereuter, we share the same concerns, which is why we have been, you know, have been engaging over a year's period of time on the replenishment, making it clear that we are concerned about some of the issues that we expected the Knox Report would find.

Management, to its credit, has already prepared an action plan as a basis for followup. The donors have made, quite frankly, the conclusion of the replenishment contingent upon a plan of action in response to this and other findings.

So the optimism comes from the immediacy of the response, the seriousness with which the report's findings were taken, and the desire of management to work with us to continue to generate support. They know that we have every reason to hold back funding

if we can find it, given budgetary constraints. We have a strong commitment to Africa, but we have made it very clear that there are other mechanisms to finance economic development of the continent, and that if we can't make the case that the money is being spent effectively, we won't be able to continue funding to the African Development Fund.

We are working closely with management to address these issues. So that is where the optimism comes from. We will see the results in a period of time. But at least the report came out April 7 and there was a response from management immediately.

Mr. BEREUTER. I think with respect to the countries of Africa, they are not in a position to be as critical of the administration of the Bank without jeopardizing their own projects.

Ms. LEVINE. That is right.

Mr. BEREUTER. And so the assistance, the effort to move the management reforms along, has to come from the donor countries. I hope that it will be clear that I think we need to consider alternative methods of financing and development, unfortunately, going back to bilateral assistance, if necessary, as the emphasis, even though multilateral assistance could give us and does give us better leverage, but only if the money is used well.

Ms. LEVINE. I think one positive result the Knox Report points out, and this is something that we have been concerned about, is that it is the nonregional capitals that have paid the most attention to the Bank with the regional capitals relying more on their Executive Directors.

But as a result of the negotiations in Nairobi and the opportunity to communicate with the regional members of the Bank, they themselves have concluded they must pay more attention to the Bank and should meet more frequently than once a year at the annual meeting.

Mr. BEREUTER. Thank you, Mr. Chairman.

Chairman FRANK. Mr. Bacchus.

Mr. BACCHUS. Thank you, Mr. Chairman. Let me begin by encouraging all of our witnesses and all of those present to take the remarks of Mr. Bereuter very, very seriously. Those remarks were not made by someone who does not support aid to Africa; they were made by someone who has been a champion of aid to Africa and is at least as committed to developmental assistance of the continent as anyone else in the House. And so I consider his remarks very seriously and so should you.

I have been listening to what I consider to be a very interesting debate among the witnesses over whether we should give people a fish or teach them how to fish, and that is a debate that knows no end. But it seems to me that it is helpful, while we are teaching people how to fish, if they have a fish to eat along the way, otherwise they won't learn too much. That may sum up the dilemma.

I know there are significant loans in arrears; I know we are trying to do something about it; I know there have been problem loans. I have heard Ms. Levine talk about some of the things that we ought to be doing in terms of education and microenterprise and the environment and sustainable development. I would like to hear something good about what the Bank has been doing.

Can you, Ms. Levine, give me some examples of some good loans that have been made, some things that have been done well that deserve applause, some returns on the investments made by the taxpayers that we represent?

Ms. LEVINE. Yes, Mr. Bacchus. We tend to spend a lot of time focusing on shortcomings, but there clearly has been a lot of good. In particular, the Bank, in cooperation with the World Bank, has been engaged in substantial nonproject-based lending, through policy-based loans, centered on education, health, and other types of sector lending, and has done a good job of that; has recognized that it is important to work with the institutions that have the expertise and has done so.

In this replenishment, the Fund will continue that type of lending; 22.5 percent of the Fund will be devoted to nonproject lending.

I think the other thing that we have done, and worked on closely with the Fund and with management in this replenishment is moving the institution toward the things that it does or should do well, which are agricultural lending, primary health, education, and away from the parastatal type lending which, quite frankly, was not so successful. This replenishment moves the Bank in that direction.

Mr. BACCHUS. In his testimony, Mr. Ong'wen suggested that the secretariat may be a little topheavy, and that they may be spending more money on the secretariat than they should and not as much money on getting people out into the field. Does the government of the United States agree with that?

Ms. LEVINE. In fact, I believe administrative costs have come down slightly, and we have pushed for, at all of the institutions, for no real growth in administrative costs for that very reason.

Mr. BACCHUS. What is the level of administrative costs right now for the African Development Bank?

Ms. LEVINE. I will have to get back to you on that, Mr. Bacchus. We have the information, just not with us.

[The information referred to can be found in the appendix.]

One of the things that the Knox Report pointed out was that there is not enough followup on projects—that once the money goes out the door, there is not good enough followup. Part of that reason is the cost associated with putting more people in the field or sending out more missions.

Clearly, it is not an excuse, but we have to balance all of these different cost considerations, which is why we have pushed hard for elimination of the expensive perks in order to be able to spend more on getting people in the field.

Mr. BACCHUS. What kinds of expensive perks?

Ms. LEVINE. First class travel, for example. We have taken the lead around the world in getting the institutions to eliminate first class travel. Lowering the rate of increase of salaries is another. We have reduced those types of increases. So we have taken on administrative cost issues at the same time that we have asked these institutions to do more, but have tried to create an environment where we can't have costs being used as an excuse for not doing the right things.

Mr. BACCHUS. A final question. Following up on the inconclusive meeting in Nairobi, what is likely to happen next?

Ms. LEVINE. We will have most certainly, within the next 4 to 6 weeks, another meeting. The donors will meet probably the first or second week of June. We expect that the African regional members will be ready to meet with us within 4 to 6 weeks, and it would be our hope at that time to conclude the negotiations. My sense of why we didn't conclude, was really the need for more time, discussion among regional members.

Mr. BACCHUS. Thanks again to you and to Mr. Hennessey and to your colleagues for all of your hard work. We are very proud to have you representing us.

Ms. LEVINE. Thank you, Congressman.

Mr. BACCHUS. Thank you, Mr. Chairman.

Chairman FRANK. I know we are all unhappy that Mr. Bacchus is leaving us, and I don't know what he is planning on doing, but I think if you were thinking about going back to journalism, you have been away too long because your first question was "Have you any good things to say?" and that is not an attitude that will serve you very well. So I think you may have to go through a period of cultural readjustment.

Mr. BACCHUS. Mr. Chairman, I hope I am not so desperate as to return to journalism. Actually, I was trying to build a record for you and me on the floor to try to defend the replenishment.

Chairman FRANK. I appreciate that, and I think you have chosen wisely.

Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman. I wanted to just get a clearer understanding about the amount that is being requested and our failure to fund the last replenishment and maybe get some clarification of why we have not funded what we—was it a commitment that we made previously and why did we not fund it, and how can we now justify counting what we didn't fund toward what we are requesting this time? I just need to be clearer on that as a new member of this subcommittee.

Ms. LEVINE. Thank you for your question, Congressman. As you well know, the Secretary of the Treasury made the clearing of arrears that are the result of previously entered into agreements a high priority in our request for this fiscal year budget. Those arrears now total \$847 million.

We are pleased that as a result of yesterday's—

Mr. WATT. When you say agreements, you are talking about our commitment to the Bank?

Ms. LEVINE. That is right, to all of the different institutions. The arrears to the African Development Fund were \$62 million out of the \$847 million in arrears.

If I can give you some history, the last replenishment, which was the sixth replenishment, covering the period 1992 through 1994, we should have—we committed to an annual contribution of \$135 million. That was roughly a 22 or 23 percent increase from the fifth replenishment, which was in the 1988 to 1990 period. The problem was that, we agreed to an increase, but then we did not succeed in getting appropriations for the increase. So the arrears were created.

In this replenishment, we made a number of very important decisions. One was that we should replenish and that the amount

should be substantial, but that we probably were too aggressive in agreeing to the increase in the sixth replenishment, given our inability to contribute the money that we agreed to.

So what we have done this time is gone back to the level of the fifth replenishment so it is the \$105 million per year and to that we will add the \$62 million of arrears clearance which we will do over a 2- or 3-year period of time, depending on what happens in the appropriations process. Our actual annual payment this year will be \$125 million. We will be paying \$20 million in arrears this year and \$105 million to the seventh replenishment. The annual contribution will be a smaller commitment level than the previous years, which we were just not able to honor.

Mr. WATT. Let me be clear. We make a commitment to the Fund based on the authorization, or we make a commitment based on the appropriation? Maybe I am just—maybe I am asking too basic a question here and I shouldn't waste the rest of the subcommittee's time with it.

Ms. LEVINE. I am delighted to answer the question, Congressman. The traditional mode for these negotiations is that we consult with Congress throughout the negotiation process and consult about the level of money that we anticipate will be agreed on. It is a multilateral negotiation. We are just one of the shareholders.

We then have the process of seeking authorization and seeking appropriation. We may or may not—and everyone understands this—succeed in achieving the level of appropriation. We hope that the consultation process allows everyone to know in advance so that we don't get ourselves in the position that we now are in, which is to not honor these agreements.

Chairman FRANK. But, technically, the answer is that the commitment precedes either the authorization or the appropriation.

Mr. WATT. OK.

Chairman FRANK. It is an executive branch commitment which we then honor or not.

Mr. WATT. But there is a level of understanding on the part of everybody that it is kind of a conditional commitment. Nobody over there is relying on our having committed \$62 million more than we actually—

Ms. LEVINE. Well, Mr. Watt, in fact, if we don't—they rely on the executive branch's ability to deliver on an agreement, and if we don't, it gives the other donors an opportunity to reduce their amount as well. So that is why we try to be prudent, cautious, and also try to deliver on these commitments, because everyone else makes their decisions based on what the United States says it will be willing to contribute.

Chairman FRANK. I think the gentleman will find, it has been my experience, the American concept of the separation of powers is not widely admired throughout the world.

Mr. WATT. All right. I think I understand then a little bit better. I don't have any further questions. I also think I understand a little bit better the necessity of having the authorization now.

And then how quickly will the appropriation follow once the authorization takes place? Maybe I should ask the chairman that.

Chairman FRANK. Well, the appropriating—actually, we run into this time problem. In the first year, by the necessity of the account-

ing, the appropriators have already put an item in there. We are going to have an authorizing markup for this, for the Inter-American Development Bank, for the Global Environment Facility, and to consider whether we are going to do anything on the Enhanced Structural Adjustment Facility of the IMF, the first full week back after Memorial Day.

So in fact, the appropriators start a little bit ahead of us, but we have been able to work together with them. And in the end, last year, we worked out a solution between ourselves and the appropriators so that there was mutual agreement and they did not go ahead without us.

You might remember on the International Development Association, they had been talking about putting in a full authorization and, because we had some questions about that, they didn't do that. So that, in fact, technically starts a little earlier. But, again, it is kind of a simultaneous process given the calendar for the first year. For the second and third years, we are able to establish a priority there.

Mr. WATT. I appreciate the chairman and Ms. Levine providing an education to me on the appropriations and authorization process this morning. I am learning.

Chairman FRANK. Mr. Rush.

Mr. RUSH. Thank you, Mr. Chairman.

Mr. Chairman, I want to first of all go on the record as being totally supportive of the comments and statements of Mr. Bereuter and Mr. Bacchus. I endorse what they say wholeheartedly, because I think that it is necessary.

In that regard, I want to ask Secretary Levine, in response to the question regarding the Knox Report, you indicated that there were management reforms that have been implemented, and I want to know whether or not those reforms are in the—are docketed in the form of documentation? Do you have those forms as a report, a study, or any type of documents that would address the reforms?

Ms. LEVINE. Mr. Rush, I understand that management has prepared a strategy paper that will lay out the steps for responding to the recommendations. This has not yet been discussed at the Board of Directors, but it will be. So this is just in response to the Knox Report.

Mr. RUSH. OK. Do you have any type of timetable when the Board of Directors will in fact either approve or disapprove of the reform proposals?

Ms. LEVINE. We, as I mentioned earlier, made a condition of our willingness to conclude the seventh replenishment a response to the Knox Report. So there has to be a discussion of the steps that will be taken in response before we would be willing to conclude the negotiation, which means within the next month.

Mr. RUSH. OK. Would it be appropriate for the chairman and the members of this subcommittee to get a copy of those reforms at the earliest possible date, preferably before you make a final decision about the seventh replenishment?

Ms. LEVINE. Mr. Rush, we will certainly make the chairman and all members of the subcommittee aware of the actions that the Bank intends to take in response to the findings of the Knox Report.

Mr. RUSH. Thank you.

Chairman FRANK. Let me—just to follow up on what Mr. Rush says, we recognize that we have no legal authority to instruct any multilateral entity but, as I noted before, things are related. We will be considering this as a legislative matter in about 3 or 4 weeks, and I can make a prediction. If there has in fact been no progress, I don't think there will be that many votes. I mean that is just, you know, a fact. People are going to be looking for progress in making up their minds.

Let me ask one other related question, because Mr. Ong'wen did raise the question of making documents available. I understand there has been a problem having documents to make available. But what kind of progress would we be able to anticipate on at least adopting a policy of greater openness of documents—"transparency" in the international language—and also an agreement in principle that will govern the review process before we have to mark this up?

Ms. LEVINE. We have an agreement in the replenishment document that at least for the Fund's projects, because this only covers the Fund, there will be an information policy analogous to the policy adopted by the World Bank.

Chairman FRANK. Thank you. I am going to ask the staff director to see if when we get this transcript typed up, particularly the statements of Mr. Bereuter, Mr. Bacchus, Mr. Rush, myself, we can send it to the African Development Bank. I think it would be very useful for them to see these comments, and I think that in a cover letter, perhaps from Mr. Bereuter and myself, we might say that we think it is very important for the Bank leadership to see what supportive members of this body have to say about what we think is in the best interests of all concerned. So we will send that along.

Ms. LEVINE. Mr. Chairman, I might add that the Bank's New York representative is in this audience and I am sure he too will pass that information on immediately.

Chairman FRANK. I am not going to ask—

Ms. LEVINE. I mean Washington, I am sorry. I forget where I am.

Chairman FRANK. Good. Because people will want to know whether he flew first class, and we don't want to get into that.

Any further questions? If not, I thank you. This has been a very useful hearing and we appreciate it.

[Whereupon, at 11:10 a.m., the hearing was adjourned.]

APPENDIX

As Prepared for Delivery
Adv. 10 a.m. EST
May 19, 1994

STATEMENT OF SUSAN B. LEVINE
DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR
INTERNATIONAL DEVELOPMENT, DEBT AND ENVIRONMENT POLICY
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
FINANCE, TRADE AND MONETARY POLICY OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

May 19, 1994

Mr. Chairman, I appreciate the opportunity to appear before this Subcommittee. The issue today is the Administration's request for authorization for U.S. participation in the seventh replenishment of resources for the African Development Fund. Our request will be for \$315 million for the total U.S. contribution to this replenishment, to be paid over a three year period. This request is in anticipation of the conclusion of the replenishment negotiations, expected later this summer. As you know, we had hoped to conclude the negotiations at the Annual Meeting last week in Nairobi. However, the complexity of the issues and the weight of the reform agenda being pursued by OECD countries, resulted in our African partners requesting additional time to consider their response.

The United States Government is deeply committed to Africa's development. This is a continent rich in diversity and history, which is now at a critical stage in its economic development. The situation in Sub-Saharan Africa is particularly precarious today. This is the only region of the world where poverty is projected to continue increasing. Simply put, Africa's share of world population is rising, but its share of global output is falling.

The United States has a strong stake in helping to ensure that these countries successfully meet the challenges they face. Providing support for Africa's development was of paramount concern to us as we prepared our FY 95 budget request. The fact is, the African Development Fund and the World Bank's International Development Association -- which allocates half of its resources to Africa -- account for almost 70 percent of our total budget request for the multilateral development banks.

The multilateral resources allocated to Africa are substantial. For example, IDA commitments to Sub-Saharan Africa over the next three years are expected to total \$10.7 billion, an increase of \$2.2 billion over the previous three years. The World Bank is also planning substantial support for South Africa.

- 2 -

The International Finance Corporation has over \$850 million in loan and equity investments in the region. Africa will also benefit from our request for debt reduction and from the Enhanced Structural Adjustment Facility of the IMF.

The African Development Bank Group has a unique role to play in the region. This is an indigenous institution -- and the only multilateral development bank that is majority owned by Africans. It is important to African policy makers.

The main challenge of the African Development Fund is to reduce poverty. All of its resources are provided on a concessional basis. For the poorest, already highly indebted countries of the region, it is the Fund not the "hard loan window" of the Bank, that is an important source of development financing. The Fund, with resources provided by the United States and other donors from outside the region, fills a critical role for these hard-pressed countries.

In our view, however, if this institution is to play a pivotal role in Africa's future, its development impact must be strengthened. The institution has had more than its share of problem loans. This is partly explained by the climate in which it operates: arguably the most difficult development environment in the world. Its borrowing countries are among the poorest and their economic and political systems are undergoing difficult transitions. The Bank Group also has had its own problems, including: arrears on loans, some difficult Board members, and senior management turnover.

The Administration has been working hard with management and with member countries to strengthen the institution. Both the Bank and Fund already have made some headway on their financial policies, including: strengthening the non-accrual policy, building reserves, and intensifying efforts to recover outstanding arrears. With regard to arrears, we have been told by management that a number of countries are making progress on this front. But some arrears are due to structural, political or economic problems and may require a longer work-out period.

We believe further strengthening of financial policies is possible. In particular, we want well defined country eligibility and exposure guidelines. As I noted earlier, some countries simply cannot afford to borrow funds at market rates from the "hard window". These countries should be limited to concessional resources in order not to exacerbate their debt burdens. The standard practice in the multilateral system is for these countries to borrow from the concessional loan windows only. We think this makes good financial sense.

In addition to strengthening the financial base of the Bank Group, we are working with the institution to strengthen its

- 3 -

development impact. The Bank recently concluded its own version of the Wapenhans report, known as the Knox Report. As anticipated, the Report points out significant shortcomings in the operations of the Bank Group. In particular, it highlights problems in project implementation and evaluation. The Bank Group does not currently have the field capacity to supervise project implementation properly. Management is now in the process of preparing an action plan to address this and other key findings of the report.

The Knox report also touched on issues of governance: relationships within management, between management and the Board of Directors, and the oversight role of the Board of Governors. These issues will require careful consideration and consultation among regional and non-regional capitals.

Let me now turn to issues specific to the replenishment. We are successfully negotiating a number of policy changes that are of fundamental importance to the United States. The first is a stronger emphasis on sustainable development. This includes lending to the social sectors, especially health and education. The draft agreement makes special reference to the education of girls. Other important initiatives include: a new micro-enterprise program which will channel money to small-scale entrepreneurs through non governmental organizations; stronger emphasis on the environment, including stronger forest and energy efficiency policies; and good governance.

Donors agreed that an information policy and an inspection function, analogous to those negotiated at the World Bank, should be established to strengthen the transparency and accountability of the Fund. They also agreed that a strong and independent internal audit function should be maintained and that its mandate should be extended to include examination of operational and financial procedures and practices. The function should report directly to the President and the Board of Directors.

An important part of the replenishment is the basis on which Fund resources will be allocated among African countries. Funds will be allocated on a flexible basis, with more going to those countries which demonstrate strong economic and social performance. Countries with weak development policies will be restricted to core programs aimed at helping the poorest members of society.

Mr. Chairman, although the negotiations did not conclude in Nairobi, we need the support of this Committee to bring the negotiations to a successful conclusion. It is particularly important that we send a signal of solid support to the regional members of the Bank in order to encourage them to endorse the proposed reform agenda. We also need the resources of the Fund, in combination with the resources of IDA and our own

- 4 -

bilateral programs to provide crucial assistance to the poorest in Africa.

As I have already said, we will be seeking authorization for \$315 million to be paid over three years. You have no doubt noted that this is a lower amount than the U.S. pledged for the previous replenishment. However, we have failed to fully meet our commitment to the previous replenishment. Now, we must make up those arrears as we enter into the seventh replenishment. That means paying our arrears plus our contributions to the seventh replenishment in FY 1995 and 1996 -- which will result in annual contributions that are roughly the same as the past three years.

As we are all acutely aware, development assistance is facing serious budget constraints. Competition for funds among our development programs to assist Africa is intense. In this environment, the amount we are proposing for the African Development Fund represents a carefully considered judgement of how we might achieve the strongest development impact across programs supporting Africa. The African Development Fund remains an important priority for the United States and we hope the Committee will approve our request.

Thank you Mr. Chairman.

Submitted by Susan Levine

**African Development Bank Group
Administrative Expenses
(thousands of \$US)**

	1993	1992
Board of Governors	2,208	2,828
Board of Directors	12,108	12,029
Personnel Expenses	93,477	89,067
General Administrative <u>Expenses</u>	<u>26,385</u>	<u>33,829</u>
Total	134,179	137,753



AFRICA WATER NETWORK
RESEAU AFRICAIN DES RESOURCES EN EAU

Testimony of

ODUOR ONG'WEN

on behalf of

BANK MONITORING UNIT:

AFRICA WATER NETWORK
CLIMATE NETWORK AFRICA
ECO-NEWS AFRICA

KENYA ENERGY AND ENVIRONMENT ORGANIZATIONS (KENGO)
ENVIRONMENT LIAISON CENTRE INTERNATIONAL

before the

SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE, TRADE AND
MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

May 19, 1994

Mr. Chairman and members of the Subcommittee, my name is Oduor Ong'wen. I am the Coordinator of the Bank Monitoring Unit (BMU), an initiative of five environment and development NGOs based in Nairobi. The Unit is based at the Africa Water Network secretariat in Nairobi. BMU monitors the socio-cultural and environmental impacts of the multilateral development banks and serves as liaison with affected communities and local NGOs to lobby the implementing agencies and the MDBs for the redesign, or discontinuation altogether, of projects whose potential impacts are negative.

The testimony I am presenting today reflects the collective views of NGOs from the member countries of the African Development Bank (AfDB) who met in Nairobi between May 10 - 13, 1994, during the Bank's Annual Meeting. At that meeting, the NGO representatives adopted a 17 - point recommendation covering six major areas of the Bank's operations and its relations with NGOs and PVOs. These recommendations were presented to the Bank on May 10, 1994, during the official AfDB/ NGO consultations.

The key recommendations in this testimony today focus on such areas as: Information access and dissemination; project conception, design, implementation and evaluation, as well as portfolio management; poverty alleviation; debt management; dialogue between NGOs, the AfDB and borrowing governments; and the Bank's post-project follow-up process. In addition, serious concerns were raised regarding the socio-cultural and environmental impacts of AfDB-funded projects, and documentation on case studies has been presented to Bank officials.

This testimony seeks to restate and emphasize these NGO concerns and to make further recommendations, particularly with regard to the seventh replenishment of the African Development Fund (AfDF VII).

REVIEW OF THE BANK'S PERFORMANCE UNDER AfDF VI

1. Information Dissemination and Access

In spite of unending assurances by the Bank's staff to make publicly available all non-classified information, it has continued to operate under a system that is inordinately opaque and impenetrably shielded from public scrutiny. As dialogue and empowerment presuppose inflow, the affected communities, NGOs and other stakeholders in AfDB projects, programs and policies have found it extremely difficult to effectively have any inputs into the projects, programs and policies.

2. Environment Impact Assessments (EIAs)

The Bank group committed itself, during AfDF VI negotiations, to completing and making available to the Board of Directors copies of EIAs at least 120 days prior to project approval. There is no evidence to show that this commitment was honored. During the AfDF VI period, the Bank disbursed more than US \$ 5 billion for over 200 loans yet the available environmental impact summaries number less than 40. This is despite the fact that many of the loans are for projects that fall into Category I, requiring a full EIA.

3. Public Participation in EIAs

The Bank's commitment at the AfDF VI negotiations to involve fully the affected communities and relevant NGOs in EIAs and to make completed reports available to these groups is a promise that remains largely unfulfilled. We NGOs are curious to know what the Bank reports to the Board of Directors on this issue. We are concerned over the fact that the AfDB relies on bilateral assistance to finance EIAs. What this means, Mr. Chairman, is that without donor benevolence, projects might be implemented without an EIA being conducted even if it is needed. Under these current arrangements, it is not unimaginable for a donor to insist on particular consultants who might not do a good job.

4. Project Supervision

AfDB project supervision is extremely weak, rare, and in most cases of questionable credibility. Country missions do not go to project sites nor do they have a well defined mechanism for consulting with all stakeholders. This has led the Bank to finance some projects that were failures right from the beginning or to very serious delays in completion of others.

5. Environmental Screening of Projects

Mr. Chairman, the Bank committed itself during the AfDF VI negotiations to screen and categorize all projects according to their potential environmental impacts. We are not aware whether this commitment has been adhered to and we are eager to know. However, Mr. Chairman, a project like the LILONGWE FORESTRY PROJECT in Malawi - a country with an alarming deforestation rate - was given a Category III rating, despite the fact that it has the goals of improving the production and management of that country's remaining indigenous forests.

6. Energy and Forest Policies

Mr. Chairman, the attempt by the Bank to develop an energy policy has not been very successful either. Its draft policy, prepared by a French consulting firm against the recommendations of regional NGOs, did not address Africa's main energy concerns and was so controversial that a key consultant had to quit midway. (For example, the report heavily emphasized the development of nuclear power as a fundamental energy source throughout Africa.)

Similarly, there has been an attempt by the Bank to evolve a Forest Policy which, though addressing certain fundamental issues in the forestry sector, fails to address the impact on forests of project loans from non-forestry sectors and activities.

RECOMMENDATIONS

Mr. Chairman, having outlined some of the areas of key concern to us African NGOs, permit me to make recommendations on some of the areas we would like to see improvement before the replenishment is made to the AfDF:

A. Information Dissemination

Mr. Chairman, we strongly recommend that the African Development Bank should develop clear guidelines and policies on information disclosure and dissemination. It should clearly specify which kinds of information it considers "classified" or "restricted" and give sufficient reasons for such classification/restriction. We recommend that all other documents should be made available to NGOs and the public. We would particularly want the Bank to ensure that the documents available to NGOs include, but are not limited to:

- Quarterly Operational Summaries;
- Project Proposals;
- Consultative processes in project countries;
- National Environmental Action Plans;
- Staff Appraisal Reports; and
- Performance Reviews carried out by the Operations Evaluation Office.

Mr. Chairman, we also feel there should be a time frame on the period within which these documents should be made available to the NGOs, but at least before the Board of Directors votes on whether or not to approve a project.

B. Participation and Appeal by Affected Parties

The AfDF VI already requires full participation by affected communities and NGOs throughout the project cycle. However, in practice, this hardly happens. Before the approval of AfDF VII, the Bank should commit itself to community and NGO participation in projects at all stages and to the establishment of an Independent Appeals Panel, similar to the one established by the World Bank last September, for affected communities to seek redress.

C. Project Supervision

Mr. Chairman, we recommend that before AfDF VII is approved, the Bank should review its current processes and project portfolio supervision. Country missions should be more frequent and professionally competent, and they should talk directly to affected people and NGOs, besides the implementing agencies, so as to get a more comprehensive view and assessment of the projects. The Bank should also devise a mechanism for filing regular reports to its members and other interested parties, including NGOs, about the results of the monitoring and evaluation processes.

D. Environmental Impact Assessments

The Bank must ensure that environmental screening and EIAs are properly carried out. It should also strive to set aside funds for conducting the EIAs instead of depending on bilateral funding (which often delays the process and often comes with conditions on which consultants should be hired, etc). The AfDB ought to be in the forefront of capacity building efforts at the national level and among the NGOs in the regional member countries for the conduct of EIAs.

E. Bureaucracy

The Bank spends too much money running the secretariat. There is a critical need for a review of the Bank's structure with a view to streamlining the secretariat, strengthening the operational wing, and reducing and making more efficient the administrative team. The Environment and Social Policy Division should be restructured and be made to fall under a Vice President, as is the case with the Private Sector Development Division.

Once again Mr. Chairman, I want to thank you sincerely for this opportunity to come before you and express these concerns which I believe will go a long way in making the African Development Bank a people's bank, a "green bank", and a viable tool for the development of the African continent. I welcome any questions you and other members of your distinguished team might have regarding my testimony and may I assure you that I will respond to them to best of my ability. Thank you.

*The NGOs represented at the May 1994 meeting in Nairobi, Kenya, include:

- 1.Third World Network (Africa Secretariat)
- 2.Integrated Social Development Centre (ISODEC), Ghana
- 3.Nigerian Society for the Improvement of Rural People
- 4.Consortium of Ethiopian Voluntary Organizations (CEVO)
- 5.Confederation of Central African NGOs (CONGAC)
- 6.Kenya Energy and Environment Organizations (KENGO)
- 7.Africa Water Network
- 8.Climate Network Africa
- 9.Eco News Africa
- 10.Environment Liaison Centre International (ELCI)
- 11.Kituo cha Sheria (Legal Advice Centre)
- 12.Uganda Rural Development Initiative
- 13.Kogola Women Group
- 14.Advanced Centre for Environmental Studies (ACES)
- 15.Kenya Youth Habitat Organization
- 16.Centre for Institutional Development, Research and Consultancy Services (CIDRACS)
- 17.The Church of the Province of Kenya
- 18.The National Council of NGOs, Kenya

In addition, the following NGOs from the non-regional member countries attended:

- 1.NOVIB (The Netherlands)
- 2.World Information Services on Energy (WISE) , The Netherlands
- 3.Bank Information Center (USA)
- 4.Environmental Defense Fund (USA)
- 5.WEED (GERMANY)
- 6.Friends of the Earth (Philippines)
- 7.Third World Institute (Uruguay)

THE CORPORATE COUNCIL ON



Testimony before
the
Subcommittee on International Development,
Finance, Trade and Monetary Policy
of the
Committee on Banking Finance and Urban Affairs
May 19, 1994
Topic: The African Development Bank
Presented by Mr. Clarence Haynes

Mr. Chairman, your staff has informed the Council that you are a person who prefers to dispense with formalities and address the issues at hand. We appreciate your style and believe that a great number of institutions, including many within our federal government and the entity we are discussing this morning, the African Development Bank, could learn from your excellent example. There are four points that I would like to make regarding the African Development Bank ("ADB").

- First, the ADB is the one institution in Africa that truly facilitates capital formation in Africa. The ADB has been very successful in accessing international capital markets to fund its projects, decreasing the burden of international donor organizations to make grants and loans to finance the critical infrastructure projects that will literally form the physical foundations for Africa's economic development. As a result of its success in raising capital from the international markets, the ADB issues have facilitated the opening up of those markets for other African issuers of securities. This has been evidenced by the recent commodity linked \$500 million commercial paper program of the Preferential Trade Area Bank ("PTA Bank") engineered and placed by U.S. financial institutions.
- Second, I would like to make an observation that many international fund managers are beginning to look at Africa as a viable place to invest capital. Africa is beginning to mature in the eyes of many institutional investors that have never before considered it as a place to invest capital. This represents a huge turning point at which African countries such as Ghana, Uganda, Botswana, Zimbabwe and Tanzania are now in the position to see foreign inflows of capital that not even the most optimistic people would have imagined a decade ago. The recent initial public offering of the Ashanti Goldfields which raised over \$300 million dollars for the partial privatization in Ghana is exemplary of this interest among institutional investors. Fund managers need to rely upon the ADB and other multilateral developmental organizations to provide support and to share the risk associated with investment in Africa.

- Third, the ADB should strive to become more active in more private sector projects through investment in its own right and by facilitating internal capital market development within African countries. Specifically, the ADB should look at mechanisms that will strengthen local financial institutions and currencies, stimulate greater savings, and build local financing mechanisms within the African countries. The ADB should collaborate more with entities such as the International Finance Corporation (IFC), OPIC, and U.S. private sector investors, such as those involved with the African Growth Fund, that have developed successful financing mechanisms in Africa and other emerging markets.
- Fourth, the Council feels that the ADB in the past has had to operate under very difficult circumstances. Many of its borrowers had not made appropriate financial/economic adjustments in their policies and were not able to manage their fiscal affairs in such a way as to meet their payments to the bank according to schedule. Therefore, the Bank is presently faced with a significant number of arrears, but where appropriate, we truly believe that there will be a commitment to bring these arrears current and to introduce more rigorous guidelines to protect against reoccurrence.

The ADB is and will continue to be a central player in the development process and we should support the Bank. The ADB's preeminent role as a financial player in the African marketplace underscores the need to maintain innovative leadership that will create a flexible and responsive organization with skilled personnel processing the increasing demands which are placed on its staff. Notwithstanding the recent publicity regarding the Bank's operations, the issues raised in many quarters regarding the Bank need to be addressed and solutions need to be found that will allow the ADB to be more responsive to the private sector and to operate more efficiently.

The ADB is a key player supporting private sector development in a number of African countries that have successfully waged an unglamorous and seldom recognized struggle to reform their economies through structural adjustment programs. As South Africa begins to demand a greater share of the world's attention and resources, other needs and facilitating resources in Africa must be addressed. The ADB has played a significant role in Africa in the past, and with continued support, it will be able to make an even greater contribution in the future. We are encouraged by the attention that the ADB is receiving here today.

TESTIMONY

before the

Committee on

Banking, Finance and Urban Affairs

Subcommittee on

International Development, Finance, Trade and Monetary Policy

May 19, 1994

Prepared by:

**Edward P. Bullard
Founder and President**

**TechnoServe, Inc.
49 Day Street
Norwalk, Connecticut 06854**

203-852-0377

I. Introduction

Mr. Chairman, thank you for inviting me to testify this afternoon on community-based, rural enterprise development in Africa.

I am here today in my capacity as founder and President of TechnoServe, Inc. TechnoServe is a private, non-profit, U.S. voluntary organization. Its goal is to improve the economic and social well-being of low-income people in developing countries by fostering the development of small- to medium-scale enterprises. Its primary focus is on agriculture, agribusiness and institution building related to the rural sector.

TechnoServe accomplishes its mission by providing management, technical assistance and training to both private enterprises and local development institutions. This assistance is provided through a network of local "Country Program Offices" and affiliated projects, which are staffed and operated, with few exceptions, by local professionals. These offices work with rural, farmer-owned and operated enterprises to increase farm productivity, raise rural employment levels, and increase family incomes. Enterprises and institutions assisted by the TechnoServe network benefit rural communities, promote local self-reliance, build stronger regional and national economies, and contribute to the establishment of economic and social well-being.

Incorporated as a non-profit corporation in 1969, TechnoServe maintains its worldwide headquarters in Norwalk, Connecticut. TechnoServe has country programs in Kenya, Rwanda, Ghana, Nigeria and Tanzania in Africa, along with Costa Rica, El Salvador, Nicaragua, Panama and Peru in Latin America. We also operate projects with a special focus in Poland, Uganda and Bolivia.

TechnoServe employs over 250 people around the world, nearly all of them highly qualified professionals, and all but five are nationals of the countries in which they work. With a current annual company-wide budget of over \$9 million, TechnoServe assists more than 100 major enterprises and institutions each year, benefitting a population of one-half million men, women and children in the developing world.

TechnoServe's operating funds are provided by a wide variety of organizations, including foundations, corporations, churches, individuals, host country institutions, multilateral organizations, and bilateral aid agencies.

II. Focusing on the Rural Poor

I want to focus on the 350 million people living in the 250,000 rural villages in sub-Saharan Africa. About two thirds of these people live in absolute poverty. The main point I wish to make is that developmental institutions working in Africa need to focus more on helping this group.

I am no expert on the specific organizational or management problems of the African Development Bank. But in twenty-six years experience promoting development in Africa, we have seen what works and what fails.

A. Supporting Agriculture Projects to Build Wealth Among the Rural Poor

A successful development assistance strategy for Africa must embody interventions at two levels. First there must be major, country- and region-wide fiscal and infrastructure interventions to ensure creation of a conducive economic and political environment for development. This must remain within the domain of the World Bank and the African Development Bank. Second, there must be strategic, grass roots interventions to provide local peoples and institutions with the skills they need to function productively.

In many cases, what works best are small- and medium-scale projects directed at the rural poor and focused on the agricultural sector. This is because the great majority of Africa's poor live in the rural sector; because food is often the greatest domestic need; and because increases in agricultural productivity are the best (sometimes the only) means of increasing wealth.

Wealth creation, in turn, is the key to self-sustaining economic growth in rural Africa as it is elsewhere in the developing world. By wealth creation, I mean generation of wealth by the poor for the poor. It is on the foundation of accumulated wealth that everything else must be built. Wealth means:

- social improvements can be made
- partnerships formed
- resources mobilized
- businesses opened

- women empowered
- democracy taught
- and the environment protected.

It is with their newfound wealth that the poor of Africa can then take control of their own lives:

- build their clinics
- pay their teachers
- care for their environment
- feed their children
- and work for advances in democracy and human rights.

This is sustainable economic development at the grass roots level -- development led by the poor who can rightfully be proud of their accomplishments.

Neither the African Development Bank nor any other multilateral lender is doing enough to facilitate wealth generation at the grass roots level. As noted in the Report of the Task Force on Project Quality for the African Development Bank, (the Knox report), the African Development Bank has focused too little attention on agriculture. This is particularly so when one considers the importance of agriculture to Africa and its rural poor. Too frequently, the large agricultural projects financed by multilateral institutions are poorly conceived. Many show no evidence of sustainability, and some have contributed to environmental degradation.

B. Refocusing Development Assistance.

Development assistance (dispensed by the African Development Bank and other multilateral and bilateral aid agencies) needs to be refocused in two principle ways.

- First, much more liberal use must be made of technical assistance grants as opposed to traditional loans if development institutions wish to make real progress in poor rural communities.

As the Knox Report indicates, only 2.7 percent of the African Development Bank's funds go to technical assistance and grants. This is an insufficient amount to ensure successful projects.

Multilateral institutions typically attempt to finance agricultural projects solely through loans (requiring repayment) rather than through technical assistance (in the form of grants). The problem is, of course, loans only generate income streams insofar as people are taught to run profitable businesses. When projects fail for lack of technical assistance, loans cannot be repaid, adding to the debt burden. Successful projects geared toward helping rural farmers require a substantial dose of technical assistance in the form of grants which can never realistically be repaid by struggling farmers even where projects succeed.

- Second, more use should be made of intermediaries to implement rural agricultural projects.

No multilateral institution has had a record of success in the agricultural sector of developing countries. Working through governments they have found it hard to be effective at the grass roots level. The Knox Report also demonstrates how thinly spread the operational people are at the African Bank. It takes much more than money to make a viable project.

Moreover, the creation of viable community based enterprises is long, slow, labor-intensive process, often best aided by a dedicated technical assistance staff living in the field at or near the project site. [Our organization does exactly this with a field staff of about 250, all but four of whom, incidentally, are local nationals.]

C. The Model of the Farmer-Owned Business.

The challenge for the development agencies including the African Development Bank is to have a greater impact on the 350 million rural poor, working in the agricultural sector in an sustainable and environmentally friendly way.

A model does exist which can help bridge the gap between large, well-financed regional (or global) institutions and the rural villages of Africa where implementation must take place. Successes are possible -- even in this, the most challenging region of the world -- when the right approach is coupled with the willingness to stay the course, and the right enabling environment.

That model is the rural, community-based enterprise or farmer-owned business.

Successful community-based development is rooted in participatory economics, democratization, empowerment, sustainability and cost effectiveness. Successful projects must have these characteristics in common:

- they must focus upon economic units of sufficient size, often whole communities;
- they must build upon one another in order to have a significant impact upon regional or national production;
- they must have continuity and recognize that development is a long-term activity. Dedicated long-term efforts require consistent, well-designed country programs with experienced, stable staffing, utilizing host-country nationals whenever possible;
- they must include opportunities for farmers. The great majority of poor people live where sensitive natural resources are most vulnerable; also, food is the greatest domestic need in most developing countries;
- they must include women, who are often the principal food producers in the developing world, as participants and decision-makers;
- they must be environmentally responsible; and
- they must be cost-effective and sustainable.

This strategy can be expected to produce the following results: an empowered and resourceful citizenry, able to provide for themselves and to

generate local wealth; a sound agricultural base for future economic development; sufficient food and resources, resulting in improved nutrition; and a protected environment.

III. The Example of Palm Oil in Ghana.

Non-governmental technical service providers are frequently written off as too small to have an impact. This is not so. For small amounts of technical assistance funding, organizations like ours can make a huge impact on an entire commodity sector in developing countries. Tens of thousands of people's lives can be improved.

Subsidized technical assistance is the key to creating viable, sustainable projects owned by the 320 million rural poor in Africa. We have seen such assistance transform the lives of entire rural communities. I will cite the example of palm oil in Ghana.

In 1987 in the tiny town of Ntinanko (Ashanti Region) TechnoServe established a pilot palm oil plant for a group of about 100 farmers. Palm oil had been identified as an important commodity in the Ghanaian diet and economy. While there were many small farmers in the palm growing regions of the country, they had no reliable market for their palm fruit. TechnoServe/Ghana determined there was a market for intermediate-scale oil palm processing plants. These plants would supplement the production of existing large plants and also provide a processing outlet for farmers who were not able to sell their fruit to the large plants.

The next step in the process was to find a farmer group which would be willing to make the required commitment and invest the time and money necessary to get such a plant off the ground. This was a time-consuming process. After our Ghanaian staff had made multiple visits to dozens of farmer cooperatives, the Ntinanko Cooperative Oil Palm Farmers Society, located near Kumasi, came up with the equity contribution we established as a pre-condition for our assistance. Each farmer contributed a small amount of his own money as his equity stake. Once these funds were in a bank account, TechnoServe and Ntinanko signed a Service Contract and the enterprise development process was underway.

The process from the time of our first meeting with the Ntinanko group to the signing of the service contract took three long years. The farmers group realized that the outside agency was not going to build the project for them and that the commitment required from them was significant. Being appropriately cautious, they considered this matter for the three years. However, once having decided that they would go forward with their own resources, the project was no longer TechnoServe's but was owned by the participants themselves.

TechnoServe worked with the farmers at Ntinanko to develop the feasibility study and business plan necessary to secure additional funding and to establish the operation as a going concern. Small-scale, manually operated processing equipment was rejected in favor of motorized machinery which had a more substantial processing capacity. This has proven to be the right choice, although in the early days it was called into question. After a few months of operation it became clear that the enterprise was not making a profit. It appeared that labor costs were the main factor affecting profitability.

Because of its knowledge of the sector, TechnoServe was able to work with Ntinanko to restructure the business concept. Instead of having the plant purchase the fruit and sell the oil, the business adopted a "service company" model, whereby traditional women processors were able to use the services of the plant for a fixed fee per weight of palm fruit processed. With this simpler and less expensive structure, the business turned around and became one of the more successful rural enterprises TechnoServe has assisted in Africa. These complex changes were possible because Ntinanko owned the project and fully understood and participated in the decisions.

Shortly thereafter, Ntinanko became the model for the creation of four other palm oil processing plants established with TechnoServe assistance. These efforts attracted the attention of the Ghana Government, as well as the World Bank which had a tree crops promotion project.

As a result of our work in the palm oil sector, the tree crops project was redesigned to incorporate TechnoServe's village based processing model, whereby we would establish and coordinate an additional 60 small plants over five years. Now two years into the project, TechnoServe has initiated work at

30 project sites. In each of these projects the beneficiaries will be full participants and partners -- more importantly, they will be owners!

Other benefits of this program include:

- the added-value from the conversion process is put in the hands of local processors (primarily women) as opposed to all-too-often poorly managed state-owned enterprises;
- full and part-time employment is created at the farm, community, and regional levels as farmers hire workers to maintain their plantations and assist in harvest. The mills hire managers, machine operators and watchmen. Processors hire workers to assist in the stripping, boiling and sorting of fruits, and, later, hire taxis and trucks to transport oil to market;
- the drudgery associated with traditional processing of fruits by village women is eliminated through mechanization, using woman-friendly technology. Moreover, mechanization increases extraction efficiency while significantly reducing processing time;
- under an innovative program designed by TechnoServe and the Agricultural Development Bank of Ghana, the mills will purchase oil from local processors during the peak production season, thereby (a) providing cash for more fruit purchases and permitting the mill to store the oil into the lean season when prices rise significantly generating a new source of income for the mills' shareholders.

IV. Conclusion

If the African Development Bank and the World Bank are going to have a meaningful, positive impact on the lives of Africa's 350 million rural poor, they will need to develop more effective mechanisms to support rural community development projects and increase subsidized technical assistance funding.

REMARKS OF
JEFFREY R. SHAFER
Assistant Secretary for International Affairs
Department of the Treasury
May 12, 1994

THE AFRICAN DEVELOPMENT BANK AT 30:
A NEW ERA OF AFRICAN DEVELOPMENT

Fellow Governors, ladies and gentlemen:

I would like to thank the government and people of Kenya for their generous hospitality in hosting this meeting. Thanks are due also to the staff of this Bank for their hard work in organizing our deliberations.

Just two weeks ago South Africa conducted the first all-race election in its history. The self-evident truth that all men are created equal finally triumphed over the institutionalized hatred of apartheid. A victim of apartheid -- a man who was imprisoned for so many years simply because he sought justice -- now is the president of the largest democracy, and the largest economy, in sub-Saharan Africa. A political revolution has been accomplished by negotiation and reconciliation.

This is an event of global importance, and a hopeful omen for the future of democracy in Africa. It opens vast new possibilities for peace, trade, and development in the entire southern Africa region. It provides a model for future elections to be held elsewhere on the continent.

It is a great pleasure for me to be able to join with President Clinton, members of his Administration and the American people in congratulating the people of South Africa on this magnificent achievement, and President Mandela on his victory. I also am pleased to be able to anticipate their early membership in the African Development Bank. Without them, this uniquely African institution has been regrettably incomplete.

It is entirely fitting that we should welcome South Africa's membership and mark the thirtieth anniversary of this Bank simultaneously. Both events are cause for celebration. Both raise our hopes for the future. Both stimulate the hope that peace, democracy and prosperity can come, in time, even to those parts of Africa that now are struggling with civil war, misrule, or desperate poverty.

Four months ago, there was another event of great economic importance for many people on this continent. This was the decision to devalue the CFA franc after a half century, and for the first time since the independence of the Franc Zone countries. This action culminated a long process of debate and

consensus building among governments for whom it was an unfamiliar, and even alarming, prospect. What had once been a source of stability had become an economic straight jacket destroying any hope of growth, and it was essential to act. I know of very few occasions where so large a group of sovereign states has been able to move together on a step of such complexity and such importance for their common welfare.

We hope now that the Franc Zone countries can take full advantage of the opportunity they have created for themselves. To do so, governments will have to keep budget deficits down, they will have to allow greater scope for private enterprise, and they will need to become more open to foreign trade and investment. Price and wage restraint will be needed to hold onto the better incentives to produce and invest that the devaluation has brought. The early signs are encouraging. Since these are the same steps that other African governments must take as well, the actions of the Franc Zone countries also can be a model -- pointing the way toward an era of more effective development for Africa.

Africa's Development Agenda

The transition in South Africa and the adjustment in Franc Zone countries highlight some special development problems that this Bank has a role in addressing.

South Africans can boast an economy of \$111 billion, with a modern industrial sector, world-class medical and educational facilities, and one of the most sophisticated financial systems in the world. Yet these assets are beyond the reach of most South Africans, who face enormous unmet needs for jobs, for housing, for education, and for health services. The new government will be challenged to meet these needs while preserving the strength of the private sector and other economic assets it has inherited.

For their part, the people of the Franc Zone face major adjustments as they seek to restore growth. Governments have been consuming too large a share of total resources, and this cannot continue. Resources must be shifted into tradable goods and services to benefit from newly competitive exchange rates. Both domestic saving and foreign investment need to be attracted to productive uses.

The Next Thirty Years

The development challenges facing Africans in other parts of the continent share some of these elements, and include distinctive features of their own. What, then, could be the elements of a development strategy for all of Africa, which the African Development Bank should support over the next thirty years?

I see seven elements: a stable economic environment, a focus by government on its essential responsibilities, human capital

investment in both men and women, market oriented policies, good governance, environmental protection and, finally, external support.

As their first priority, the Bank and its members are going to have to work to create a stable economic environment. Keeping government spending in line with revenues, controlling money and credit so as to keep inflation low, rigorously administering fair tax laws, and maintaining the rule of law, are important to business. But they are equally important to poor people, since inflation erodes their wages and savings and bad administration victimizes them with higher taxes and poor services. Some African countries are making progress in this direction: Botswana is one of several where stable economic environments can be seen. But while macroeconomic stabilization is crucial to reestablish a solid basis for development, it is not enough by itself.

Governments need to concentrate on providing those things that they can do best, and try to do them well. In addition to creating a stable environment, this means ensuring that educational opportunities are available to all boys and girls, that health priorities are met, and that environmental resources are not squandered.

Governments do poorly when they attempt to operate the productive sectors of the economy. At best, public enterprises around the world tend to be inefficient; at worst, they suppress more efficient competition, they sap the growth potential of economies through losses and subsidies, and they foster corruption. Yet by one estimate, there still are 5,000 public enterprises in sub-Saharan Africa. Deregulation of markets and divestiture of public enterprises should be high on all African development agendas.

An essential element of an effective strategy will be investment in Africa's human capital. That means education, particularly at the primary level, which provides one of the highest rates of return of any investment a government can make. It also means better public health programs, especially at the local or village level. As I said earlier, government has a critical role here. When the lion's share of public resources goes to support a minority of university students, or for tertiary care in big urban hospitals, neither efficiency nor social justice is served. An excellent example of effective investment is provided by Guinea's education program, which has redirected spending toward the primary level and sharply raised school attendance rates.

Any focus on human capital also must highlight one of Africa's most important but under-appreciated resources -- its women. They are real producers. Healthier and better educated women will benefit African development in so many ways -- family

health, small business, conservation of resources, lower population growth rates. Too often, women's contributions are taken for granted.

Market-oriented policies, practiced with consistency and determination, also have proven essential to effective development around the world. Such policies will attract more private investment, both from the savings of Africans and from abroad. There are investors who are ready to make a commitment to Africa, indeed some already are doing so in countries that have faced up to the need for adjustment and put in place policies that are fair to the private sector. There is a much larger unrealized potential for private foreign investment, as well as for stronger investment by Africans. Foreign investment often brings with it management training, technology transfer, and access to new markets. That means more jobs and better lives for millions of Africans.

Unfortunately, African capital is fleeing political and economic instability in too many countries, and money from abroad is slow to come. Without increased private investment, adequate funds will not be forthcoming to meet Africa's needs in the coming years, and the funds that are available will not be well used.

Good governance, I believe, is well recognized by now as essential for attracting investment and promoting effective development. If public officials are not accountable and laws are administered only for the benefit of a favored few, enterprises will not thrive. If public budgets are not transparent, and government regulations serve special interests rather than public purposes, growth will be discouraged. Ultimately, for good governance to be assured, governments must be elected by, and be responsive to, their people. And basic human and economic rights of all the people must be protected by a strong legal framework and institutions to make it effective.

Environmental protection is sometimes thought to be a luxury that only wealthy societies can afford. Yet the soils, forests, water, and wildlife of each country are basic building blocks of its prosperity. This is as true in Africa as anywhere. There are unique and valuable natural resources here, but they are vulnerable. Environmental protection must be an integral part of sustainable African development. And in the end, the rate of population growth must moderate or fragile ecologies will be overwhelmed.

A strong financial sector is essential to mobilize savings, for investors and home builders. Countries like Kenya, Zambia, and Senegal have made a good start at restructuring banks, but much remains to be done all over the continent to insulate financial institutions from political influence, to let them reach new markets, to strengthen their balance sheets, and to ensure

depositors that their money will be used for sound financial purposes and will be repaid.

Finally, we recognize the need for continued strong external support. The African Bank Group is an important base for future cooperation, along with the IMF, the World Bank Group, and other multilateral agencies and bilateral assistance programs. If funds are managed well and they are focussed effectively on promoting growth and meeting social needs, the international community is prepared to continue its support, even with tightening financial constraints on donors. I believe the world is ready and eager to see more economic success stories in every part of Africa -- north, south, east, and west.

I am happy to say that the United States has begun to offer debt reduction on Enhanced Toronto Terms to the poorest African countries undertaking economic reforms, as Under Secretary Summers committed to do last year in Abidjan. Senegal, Niger and the Central African Republic already have benefitted. We also have pledged contributions to the new ESAF facility in the IMF, as well as the new Global Environmental Facility. We will continue, of course, to support IDA and the African Development Fund, in addition to maintaining our bilateral programs.

The ADB/ADF: Key Actors

The African Development Bank and Fund are a major part of Africa's development equation. The United States is committed to building a stronger Bank and Fund, for three reasons:

- First, the African Development Bank Group plays an essential role in making capital available to the African countries for long-term development projects.
- Second, the ADB commands strong respect among Africans. It can do real service by encouraging sound economic policies. Sometimes this means encouraging policy makers to take a broader, longer-term view. It means especially helping governments to explain why actions that are sometimes difficult in the short-term are essential for sustainable growth and real prosperity. It also means setting a good example of effective, transparent, and responsive management and governance.
- Third, the ADB can play a unique role in African development. Investment in people, economic development, and environmental protection will not occur unless it is led by strong African institutions. The Bank must be one of them.

In its 30-year history, the Bank Group has been an important player in plans for African development. It has had its share of successes. But a stronger African Development Bank Group is needed for the future. The Clinton administration has been urging important reforms in all of the international financial institutions. Change is occurring elsewhere. It is critical for this institution's future that it occur here, too.

The Reform Agenda

Some things are happening. We applaud recent reforms to strengthen financial policies, and movement toward streamlining the existing portfolio of projects. These steps were taken with support of both regional and non-regional members. Implementation of these and other measures will pay high dividends for the future.

But other, immediate problems must be overcome as we consider our mission for the future. Countries which have arrears to the African Bank must assign the highest priority to payment of their debts if the Bank is to remain a financial leader. We believe this issue must be addressed methodically and on a country-by-country basis.

The United States strongly supports incentives included in the current Fund replenishment which could help countries service their Bank debt by providing interest support. This support would be available for the poorest countries with good economic policies.

With respect to operational issues, we welcome Management's decision to open the Bank to a full review of its practices and policies. We considered the Report of the Task Force on Project Quality to be an excellent contribution to more effective operations and very much appreciate Management's work in bringing it to completion.

The Report's findings in many ways parallel those in recent studies of the World Bank and Asian Development Bank, which also concluded that the effects of development loans often fall far short of their objectives. One point in the Task Force Report struck me as especially poignant: that borrowers are pleading with the Bank and Fund to provide more help throughout the project cycle, from identification, to implementation and supervision, through evaluation. The message is clear: African implementing agencies are looking for stronger guidance from Africa-based institutions. The Bank cannot forget about projects once disbursement begins.

The report of the Task Force can serve as an important benchmark for the future of the Bank Group. Prompt implementation of its key recommendations by management and the Board of Directors will

revitalize a sense of strong and directed leadership, and give the Bank fresh momentum.

In order to be more effective in defining projects and implementing its support, the Bank needs to clarify the authorities and roles of its Board of Directors and management. This must be done quickly, since the Board of Directors in every international organization has a sensitive role to play in maintaining integrity of purpose. It also fulfills a key diplomatic function in maintaining the base of support among members. Where there are persistent disagreements on basic issues, these critical functions may be undermined. We are prepared to work closely with other governors, regional and non-regional alike, on these points.

I expect Governors to benefit from the counsel of the High Level Group of Eminent Persons which my government has proposed, to address these and other critical issues of Bank governance. Such Eminent Persons would be invaluable in providing guidance on the operational and financial future of the bank, building on the recommendations of the Knox report. We believe they should be people whose judgment is universally respected in Africa. Their wisdom and advice could be critical as we move to address those issues which challenge us and, unfortunately, sometimes have divided us.

Many of the issues we are working to address also have been considered constructively in the context of the Seventh Replenishment of the Fund. The United States strongly favors the early conclusion of that negotiation on a basis that will improve the contribution of the Bank Group to African development and safeguard its financial strength. The Clinton Administration stands ready to work to deliver its financial commitment promptly.

We are prepared also to join the consensus among Governors of the Bank to open discussions on the Bank's capital and associated issues of policy direction and organization. The United States stands solidly behind the Bank, taking seriously our responsibilities as Shareholders. We are prepared to work for a prompt and successful conclusion to these discussions and a stronger Bank group.

Conclusion

Mr. Chairman, it is our common goal to see to it that the African Development Bank Group remains Africa's leading development finance institution in its next thirty years.

Economic growth in Africa should be far higher. To that end, this Bank has a mission to help address Africa's needs in building human capital and infrastructure, fostering economic

growth, and protecting the environment. It has a mission to address the causes of poverty and of unrealized human potential. It has a role to play in helping to improve governance, and it can contribute to the economic and social well being of Africa's citizens.

It has some of the best staff on the continent with which to meet these challenges. We must together provide it with leadership and appropriate resources. Let's join hands together and go to work to do that.

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Notes for an address by:

Christine Stewart
Secretary of State (Latin America and Africa)
Government of Canada

to the 30th Annual Meeting
of the African Development Bank

Nairobi, Kenya
May 12, 1994

Mr. President, Ladies and Gentlemen:

- It is a pleasure for me to address this annual meeting on the 30th anniversary of Africa's most important regional financial institution. I would like to thank the President of Kenya, His Excellency Mr. Arap Moi, and the people of Nairobi for their warm welcome and hospitality.
- I speak as the representative of the new Government of Canada, elected last November with a mandate to find new ways of dealing with our problems, including Canada's role in a fast-changing world.
- I also speak as someone personally involved for many years in the developing world - and recently in Africa. I am just back from monitoring the elections in South Africa, a time of unprecedented celebration for the international community.
- We meet at a time of great challenge and change, for the Bank as for the continent it serves. I sincerely hope that this year proves to be a turning point, when Africa and its development Bank can move confidently ahead into a brighter future.
- Speaking on behalf of the people and Government of Canada, I bring two messages:
 - First, we are firmly committed to Africa, and especially to policies that will lead the continent toward sustainable and people-centred development, with poverty reduction, social development, women in development, the environment and good governance as top priorities.
 - Second, at this difficult and decisive moment, it is vital for the Bank group to define a vision, shared among its members, of a development agenda for Africa, and a role for the Bank... and to concentrate all efforts on strengthening the Bank's operations, if it is to be the strong and effective development institution that Africa needs so badly.
- This 30th anniversary is a good time to envision the Bank's future. The Bank is at a crossroads. It must re-examine its role, operations, and financial practices. It must come to terms with its dual nature, as both a financial intermediary and a development institution. The time is overdue to focus not on the volume of its resource flows but on the quality of its portfolio, not on the level of the

Bank's lending but on its impact on the development of Africa.

- All of us, as shareholders, have the same stakes in the Bank. The competition for resources has become acute. Resources must be earned: funding channels must prove themselves efficient and effective to retain public support. The need has never been greater for the Bank to become a strong and dynamic institution.
- Much has been done, but much also remains to be done. Decisions taken over the next few months will be critical in determining the Bank's future ability to play an effective role in the sustainable development of Africa.
- Canada welcomed management's initiative in commissioning a Task Force on Project Quality. Its report gives us an insightful diagnosis of the Bank's institutional problems, and points to solutions.
- Yes, this report is critical of the Bank, and far-reaching reforms have to be implemented.
 - I am optimistic, nevertheless. The first step has been taken: recognizing the problems. We share the optimism of the Task Force: that solutions are possible, that the Bank can be strengthened to deliver quality lending... provided that all members of the Bank family pool their resources and work together in pursuit of this shared goal. The continuation of the fruitful dialogue which has started between governors will be crucial to help us go through these difficult times.
 - I am also comforted by the position of my regional colleagues who have indicated their commitment to strengthening the Bank's operations, governance and financial standing and to having all shareholders, borrowers and non-borrowing members, assume their responsibility to the Bank.
 - Finally, the findings of the Knox Report are not specific to the African Development Bank. The other regional banks, the World Bank and our own institutions in Canada have been through the same exercise of assessing the quality of their project portfolio. The findings have been convergent. Problems are just deeper for the AfDB.
 - Canada is also pleased with positive steps taken by the Bank over the past year to put itself on a sounder financial footing. But much more must be done to make the Bank a

sound financial institution and to provide African countries with efficient financing.

For Canada, the completion of the ADF-VII negotiations is linked to the implementation of stronger financial policies at the Bank to bring them to international standards, such as:

- the categorization of countries according to creditworthiness;
- a debt management mechanism for the Bank;
- stronger country-exposure and country-risk policies; and
- the adoption of an income-targeting policy.

I would like to emphasize that, for Canada, countries which are good performers and are current with their obligations to the Bank should be supported. As a consequence, ADF-VII should contain a mechanism to help those countries with their interest payments to the Bank.

For Canada, ADF-VII should also provide for operational reforms - that is, measures to strengthen the Bank group's portfolio quality.

This package is in our collective hands.

- All of this is only the first step in preparing the Bank for the 21st Century. Canada is hopeful that the upcoming GCI-V negotiations will complete this process - by bringing about the full implementation of measures to strengthen project quality, as well as a review of the Bank's governance. This is essential, in our judgment, if the Bank is to remain an effective financial intermediary, and a contributor to Africa's development. The resolution that will be proposed will be crucial to ensure the Bank's progress.
- I realize how much work this means, and what a huge challenge is involved. Thus, Canada urges Bank members to give all their support to Bank management, and to mandate their Executive Directors to take a positive and active part in overhauling the Bank's operations. Canada also calls upon the professionalism of Bank Management to give their very best efforts to preparing this institution for the 21st Century, so it can take its rightful place among the world's effective multilateral development institutions.

- Canada is glad to see poverty reduction, environmental management, and women in development as proposed priorities for the African Development Fund-VII exercise... and we welcome the proposed strengthening of criteria for the indicative country lending programs related to it - such vital criteria as economic management, growth with equity and poverty reduction, sustainability, sound country portfolio performance, and commitment to governance.
- This is a message from a sincere friend - of Africa, and of the Bank. Canada has always played a large role in supporting this institution... larger than could be expected. It is in this context that the new Government of Canada has embarked on a comprehensive and very open review of its foreign policy. This means that, over the next few months, we, in Canada, will be taking a fresh look at our place in the world - in a time of tight fiscal restraint... a time when taxpayers are questioning the relevance of international aid, the impact and efficiency of multilateral channels, and Africa's very ability to take responsibility for its own development.

I will go back to Ottawa and explain that we can draw hope from the peace in Eritrea, and the elections in South Africa... and we can look forward to welcoming those two countries at last as members of the African Bank Group family.
- We take this opportunity to reiterate our commitment to pursuing our efforts, through efficient channels, both multilateral and bilateral, toward sustainable development in Africa. As a plain-speaking friend, I must tell you that if donor support is to be maintained, the institution must respond in ways that are extraordinary.... and the institution is the people who make it up. In the end, it's up to all of us.
- Despite the hard reality of our debt and deficits, Canada is still determined to play its part, to the limit of our means... while hoping for more fairness in burden-sharing. We will continue to support the African Development Bank in a constructive spirit - but also in a frank and candid way - for the sake of the people of Africa.



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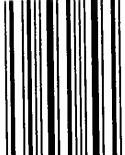
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